UNITED NATIONS

Framework Convention on Climate Change

Distr.
GENERAL

FCCC/SB/2000/10/Add.3
27 October 2000

Original: ENGLISH

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE
Thirteenth session
The Hague, 13-18 November 2000
Agenda item 7

SUBSIDIARY BODY FOR IMPLEMENTATION
Thirteenth session
The Hague, 13-18 November 2000
Agenda item 7

MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Text by the chairmen

Addendum

ARTICLE 17 OF THE KYOTO PROTOCOL

CONTENTS

	Paragraphs	Page
Draft decision [C/CP.6]: Principles, modalities, rules and guidelines for emissions trading		2
Annex: Modalities, rules and guidelines for emissions trading	1 - 12	5
Appendices to the annex		
X. Supplementarity	1 - 4	12
A. Reporting by Parties		13
B. Determination and allocation of the share of proceeds	1	14

[Draft decision [C/CP.6]: Principles, modalities, rules and guidelines for emissions trading

The Conference of the Parties,

Recalling its decision 1/CP.3, in particular paragraph 5 (b) of that decision,

Recalling also its decisions 7/CP.4 and 14/CP.5,

Taking into account Articles 4 and 12 of the Convention and Articles [3 and 17] [2, 3, 4, 5, 7, 11, 17 and 18] of the Kyoto Protocol, [and reflecting provisions contained in appendix X to the annex to this decision],

Bearing in mind Articles 3 and 17 of the Kyoto Protocol, in accordance with which, any part of an assigned amount which a Party included in Annex B to the Kyoto Protocol transfers to another Party included in Annex B to the Kyoto Protocol shall be subtracted from the assigned amount for the transferring Party, and any part of an assigned amount which such Party acquires from another Party shall be added to the assigned amount for the acquiring Party, keeping in view that any such transfers and acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 of the Kyoto Protocol without altering the assigned amount of the Parties pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B,

Recognizing that the Kyoto Protocol has not created or bestowed on Parties included in Annex I to the Convention and in Annex B to the Protocol any right, title or entitlement to emissions of any kind in the pursuance of Articles 6, 12 and 17 of the Kyoto Protocol and further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3,

Further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3,

Affirming that, in their actions to achieve the purpose of emissions trading, the Parties included in Annex B to the Kyoto Protocol shall be guided by Article 2 of the Convention and the principles contained in Article 3 of the Convention and, inter alia, the following considerations:

[Equity between developed and developing countries relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions

through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties;

[Recognizing that the Protocol has not created or bestowed any right, title or entitlement to the Parties included in Annex I to the Convention and in Annex B to the Kyoto Protocol and that it has not created an international market system or regime for emissions trading;]

[Emissions trading is only for accounting of transfers and acquisitions of parts of assigned amounts between Parties included in Annex B to the Kyoto Protocol for fulfilling their commitments under Article 3 of the Kyoto Protocol;]

Transparency;

[Climate change effectiveness: Real, measurable and long-term benefits related to the mitigation of climate change shall be achieved.] [Overall emission reductions must not be lower than would otherwise be the case;]

[Special situations of developing country Parties that are particularly vulnerable to the adverse effects of climate change and impacts of mitigation activities: emissions trading should be implemented in such a way as to minimize adverse social, environmental and economic impacts on developing country Parties, particularly those identified in Article 4, paragraphs 8 and 9, of the Convention;]

[Fungibility/non-fungibility: Parties [may][shall][not] exchange emission reduction units[, certified emission reductions] and [assigned amount units] [parts of assigned amount] [in accordance with rules and procedures established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to ensure their effective environmental equivalence.]

1. *Adopts*, in accordance with these principles, the modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading contained in the annex to this decision;

2. *[Decides* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall have the authority to accept or reject acquisitions and transfers of parts of assigned amount that have been reported by the Parties participating in emissions trading;]

3. *Urges* the Parties included in Annex I to facilitate the participation in emissions trading of Parties included in Annex B undergoing the process of transition to a market economy;

4. *[Decides also* that a share of proceeds, in accordance with provisions in the annex to this decision, to be used in accordance with Article 12 paragraph 8, of the Kyoto Protocol, shall be applied to transactions under Article 17 of the Kyoto Protocol and shall be [x per cent of y], of which [no more than z per cent] shall be allocated to administrative expenses and [no less than 100-z per cent] to the adaptation fund[1]. The share of proceeds for assisting in meeting adaptation

[1] An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular least developed countries and the small island developing States

costs shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol;]

5. *Further decides* that any future revision of the modalities, rules and guidelines in the annex shall [be made by consensus and shall] take into account the experience of Parties to the Protocol, bearing in mind that:

(a) The first review shall be carried out no later than one year after the completion of the first additional period for fulfilling commitments[2];

(b) Further reviews shall be carried out [periodically thereafter] [at three-year intervals or upon the request of ...].

6. *Requests* [the secretariat of the Convention] to perform functions assigned to it as contained in this decision and its annex[3].

7. [*Resolves* to take decisions [, at its __ session,] to:

(a) Define the roles of verification and auditing entities, including private sector entities;

(b) Issue guidelines on national allocation and accountability procedures for legal entities;

(c) Track the potential for distortion of competition and include standard checks in the guidelines.]]

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amongst them, and/or developing country Parties that are particularly vulnerable to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.

[2] As defined in the procedures and mechanisms on compliance.

[3] The resource implications of this operative paragraph will need to be specified.

Annex

MODALITIES, RULES AND GUIDELINES FOR EMISSIONS TRADING

[Definitions

For the purpose of this Annex:

(a) "Party" means, unless the context otherwise indicates, a Party to the Protocol.

(b) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as adopted on 11 December 1997.

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(e) "Article" means an Article of the Protocol, unless otherwise indicated;

(f) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8].

(g) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs][PAAs], ERUs, and CERs.]]

(Note: Paras. 1 to 4 below refer to ***participation****.)*

1. A Party included in Annex B may [participate in emissions trading under Article 17] [transfer and acquire parts of assigned amount] if it:

(a) Has ratified the Protocol.

(b) [A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B if the transferring Party, in the achievement of its commitment, has been able to limit or reduce its emissions through domestic policies and measures to an extent which exceeds its limitation and reduction commitment, thereby resulting in a part of its assigned amount not being used, which may be transferred to another Party included in Annex B seeking to acquire a part of assigned amount for offsetting domestic

emissions exceeding its assigned amount;]

(Note: Language similar to sub-para. 1 (b) above appears also in para. 11, Option 4, in this annex as well as in para. 1, Option 3, in appendix X to this annex.)

(c) [[Is bound by the procedures and mechanisms on compliance adopted by the Conference of the Parties serving as the meeting of the Parties to the Protocol and has not been excluded from participating in emissions trading under Article 17 according to its procedures and mechanisms[, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17];]

(d) [Has achieved sufficient emission reductions through domestic [action] [policies and measures] in accordance with appendix X;]

(e) Option 1: [[Is in compliance] [Has not been found to be in non-compliance] with its commitments under Articles 3, 5, 7 and 11 of the Protocol and Article 12 of the Convention and the rules and guidelines established for emissions trading and any other relevant provisions of the Protocol;]

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 2 below and thereafter,] a national system for the estimation of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] [of all greenhouse gases not controlled by the Montreal Protocol,] in accordance with Article 5, paragraph 1, and the requirements in the guidelines decided thereunder;

(f) Option 1: Complies with the provisions regarding registries as specified in [...];

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 2 below and thereafter,] a computerized national registry to account for and track [all changes in its assigned amount] [ERUs, CERs and [AAUs][PAAs] transferred or acquired under the provisions in Article 3, paragraphs 10, 11 and 12] in accordance with Article 7, paragraph 4 and the requirements in the guidelines decided thereunder[4];

(g) Has established, by the time a report is submitted pursuant to paragraph 2 below and thereafter, its [initial] assigned amount[, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder];

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[4] This paragraph assumes that the guidelines for national registries will be decided under Article 7, paragraph 4. It would need to be amended if the guidelines were agreed under another article of the Kyoto Protocol.

(h) [Has submitted, in the report described in paragraph 2 below, one annual inventory for the relevant recent year [of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] of greenhouse gases not controlled by the Montreal Protocol][5] in accordance with the provisions of Article[s 5, paragraph 2, and] 7, paragraph 1, and the requirements in the guidelines decided thereunder, other than those relating to the deadline for the first submission;]

(i) Option 1: Has submitted the last available annual greenhouse gas inventory and greenhouse gas inventory report in accordance with Article 5 and the requirements set out in decision -/CP.6.

Option 2: Has subsequently submitted, for each year following the submission of a report described in paragraph 2 below, [annual reports] [information on its assigned amount] in accordance with Article 7, paragraph 1, and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Article[s 5, paragraph 2, and] 7, paragraph 1, and the requirements in the guidelines decided thereunder[6].

(j) [Has submitted the last required information on net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human induced activities in conformity with the requirements under Article 3, paragraphs 3 and 4, in accordance with the relevant decisions by the COP and the COP/MOP.]

(k) [Has submitted [the last required] [all] periodic national communication[s] in accordance with the provisions of Article 7, paragraph 2, and the requirements in the guidelines decided thereunder.]

2. A Party included in Annex B may transfer and acquire any part of an assigned amount under Article 17 after [x] months (a specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance Committee a reasonable opportunity to identify and rule upon any problems) have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in paragraph 1 above, unless the Compliance Committee has found that it has not met one or more of such requirements.

(Note: Clarification is required as to whether the report referred to in para. 2 above is additional to the report requested for the establishment of the initial[7] assigned amount as defined in section III (modalities for accounting for assigned amount under Article 7, para. 4) of the draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (annex II of documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)

3. A Party included in Annex B may transfer and acquire any part of an assigned amount under Article 17 at an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in paragraph 1 above.

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[5] Without prejudice to the elaboration of inventory and reporting requirements for land-use, land-use change and forestry.

[6] See footnote 5.

[7] *The word "initial" in documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13 is bracketed.*

4. A Party included in Annex B may continue to participate in emissions trading under Article 17, unless and until the Compliance Committee has found that it has not met one or more of the requirements in paragraph 1 above. If the Compliance Committee has found that such a Party does not meet one or more requirements above, the Party may participate only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to participate.

5. [Parties included in Annex B authorizing legal entities to participate in international emissions trading shall:

(a) Establish and maintain a domestic system for accurate monitoring of greenhouse gas emissions of all relevant authorized legal entities that allows for verification;

(b) Provide upon request to the Article 8 expert review team the following information:

(i) Description of the relevant authorized legal entity including all factors relevant to its greenhouse gas emissions;

(ii) Methodologies used to estimate greenhouse gas emissions of authorized legal entities, including explanations of choice of methods and related uncertainties and data on activities and emission factors.]

6. [A Party included in Annex B authorizing any legal entity to participate in emissions trading under Article 17 shall remain responsible for the fulfilment of its obligations under the Protocol and shall ensure that such participation is consistent with this annex. Legal entities may not participate in emissions trading under Article 17 during any period of time in which the authorizing Party is ineligible according to the provisions of paragraphs 1 to 4 above.]

7. [A Party included in Annex B authorizing any legal entity to participate in emissions trading under Article 17 shall maintain an up-to-date list of such legal entities and make it available to the secretariat and the public.]

8. A Party participating in emissions trading shall report in accordance with [Article 7].

(Note: The following para. refers to ***modalities of operation****.)*

9. Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] [shall] [may] take place through [bilateral and multilateral arrangements between Parties included in Annex B] [bilateral and multilateral arrangements and market exchanges] [an exchange where any initial transfer of [AAUs] [PAAs], by a Party included in Annex B or a legal entity, from the national registry into which these [AAUs] [PAAs] were issued, shall take place through an open and transparent exchange in which offers to transfer or acquire are matched anonymously and on the basis of price.] [Any subsequent transfer and acquisition of [AAUs] [PAAs] as well as any transfer and acquisition of ERUs [and CERs] may take place through bilateral or multilateral arrangements or market exchanges.] [A Party included in Annex B [or legal entity] wishing to transfer or acquire ERUs[, CERs] and [AAUs] [PAAs] shall publish the amount to be transferred prior to the transfer.]

(The following para. refers to the ***share of proceeds****.)*

10. [A share of proceeds shall be transferred by the [transferring][acquiring] Party to the appropriate account in accordance with appendix B.]

(The following para. refers to ***issues related to compliance****.)*

11. Option 1: Originating Party liability: A Party included in Annex B whose actual emissions for the commitment period, after the additional period for fulfilling commitments referred to in the procedures and mechanisms on compliance, exceed the ERUs, CERs and [AAUs] [PAAs] it has retired for compliance purposes, shall be subject to the provisions of the procedures and mechanisms on compliance adopted by the COP/MOP.

Option 2: Commitment period reserve:

(a) At the beginning of each commitment period, each Party included in Annex B shall place a portion of its assigned amount in a reserve account specific to that commitment period in its national registry. This portion shall be either [x] per cent of its assigned amount, or the portion determined in accordance with sub-paragraph (b) below, whichever is the lower.

(b) Option (i): The portion shall be determined by projecting the Party's emissions for the commitment period using a straight line, fitted by least-squares regression analysis, to the Party's emissions for the seven most recent years, as reviewed pursuant to Article 8.

Option (ii): Subject to sub-paragraph (c) below, the portion shall be equal to five times the Party's emissions during the most recent year for which emissions data, as reviewed pursuant to Article 8, are available.

(c) After each annual review of the Party's emissions data pursuant to Article 8, the portion of assigned amount in the reserve account shall be recalculated. The recalculated portion shall be equal to the sum of: the emissions during each year of the commitment period for which these data are available plus, for each remaining year of that commitment period, an amount equal to the emissions in the most recent year for which these data are available.

(d) If the recalculation under sub-paragraph (c) above results in a portion which is smaller than the portion in the Party's commitment period reserve account, a number of [AAUs] [PAAs] corresponding to the difference may be transferred out of the reserve account. If the recalculation results in a portion which is larger than the portion in the Party's commitment period reserve account, the Party shall transfer a number of [AAUs] [PAAs], ERUs or CERs corresponding to the difference into the reserve account before it is allowed to transfer any [AAUs] [PAAs], ERUs or CERs out of its national registry.

(e) The calculation of the commitment period reserve account and revisions thereto shall be reported in accordance with Article 7.

(f) Except as provided in sub-paragraph (d) above, [AAUs] [PAAs], ERUs or CERs held in a commitment period reserve account [may not be transferred and may only be used to

establish a Party's compliance with its commitments under Article 3, paragraph 1] [may only be transferred into a Party's retirement account].

Option 3: Units in surplus to plan: Emissions trading under Article 17 shall operate under an annual post-verification trading system limited to [AAUs] [PAAs] determined to be surplus to the allocation plan of a Party included in Annex B. Each Party included in Annex B that wishes to undertake transfers under Article 17 shall allocate its total assigned amount among the five years of the commitment period and notify the secretariat of these annual allocations prior to the start of the commitment period. A Party can at any time adjust its annual allocation for the remaining years of the commitment period by notifying the secretariat in advance of the year(s) in question. The assigned amount allocation to any single year should not exceed plus or minus 5 per cent of the total assigned amount divided by five.

Excess [AAUs] [PAAs] for a given year shall be calculated as follows:

Cumulative assigned amount allocation from the beginning of the commitment period through the given year; less cumulative emissions from the year 2006 through the second last year prior to the given year; less the amount of excess [AAU] [PAA] certificates issued for previous years of the commitment period and cumulative ERUs transferred under Article 6 (holdings of ERUs and CERs shall not be included in the calculation).

The secretariat shall verify the availability of excess [AAUs] [PAAs] and issue certificates for them. All issued certificates shall be valid on the market without any liability or trade-specific compliance rules.

Option 4: Surplus units: Only excess reductions may be transferred and acquired under Article 17, after the adjustments taking into account the transfers of ERUs and CERs. The assigned amount is the emission reduction commitment of a developed country Party. A Party included in Annex I to the Convention and in Annex B may transfer a part of its assigned amount to another such Party under Article 17 if that Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17. *(Note: See note to sub-paras. 1 (b).)*

Option 5: Mixed liability: If a Party included in Annex B which has transferred parts of an assigned amount to another Party under the provisions of Article 17 is found to be in non-compliance with its commitments under Article 3, a portion of the transferred parts of assigned amount corresponding to the amount by which the emissions of the transferring Party exceeded its assigned amount and determined in the reverse chronological order of the original transfer (last in, first out), shall be temporarily invalidated and cannot be used for the purpose of meeting commitments under Article 3.1 for the period during which these parts of assigned amount were issued. The transferring Party remains liable for the entirety of its excess emissions and shall face the consequences provided for the breach of commitments under Article 3 under the procedures and mechanisms on compliance. The invalidated parts of assigned amount may be banked by the acquiring Party under the provisions of Article 3.13 but may not be used for the

purpose of meeting commitments under Article 3.1 until the Compliance Committee deems the transferring Party to have fulfilled any requirement resulting from the breach of commitments identified above.

12. [The secretariat of the Convention] shall perform functions as requested by Parties and, in particular, shall maintain a publicly accessible list of Parties included in Annex B [and legal entities] that are ineligible to participate in emissions trading under Article 17.

[Appendix X (to the annex to decision [C/CP.6] on emissions trading)

Supplementarity

1. Option 1: Parties included in Annex B shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and procedures and mechanisms on compliance by which the right of a Party to access mechanisms pursuant to Articles 6, 12 and 17 could be suspended in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 2: Net acquisitions by a Party included in Annex B for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex B achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Net transfers by a Party included in Annex B for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed:

5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex B achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Otherwise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

Option 3: Access to Article 17 by a Party included in Annex B is contingent on satisfaction of prescribed domestic effort in fulfilment of commitments under Article 3. A concrete ceiling for the total assigned amount acquired from the emissions trading under Article 17 shall be defined in quantitative and qualitative terms based on equitable criteria. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be initially set at 30 per cent of the effort required to meet the commitments of a Party included in Annex I. This ceiling may be reviewed periodically by the COP/MOP.

A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B under Article 17, if the transferring Party has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17. *(Note: See note to sub-para. 1 (b).)*

Option 4: The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of assigned amount under Article 17 shall apply to the allocation of emission levels under Article 4.]

3. [Any limitations on the net transfers or acquisitions of assigned amount under Article 17 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in paragraph 1 above.]]

Appendix A (to the annex to decision [C/CP.6] on emissions trading)

Reporting by Parties

(Note: See Part I in document FCCC/SB/2000/10/Add.1. Some Parties propose that reporting by Parties should be addressed under the guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13). These draft guidelines already contain some of the provisions on reporting contained in appendix C to Part I. Parties may wish to focus their attention on those provisions in that appendix that are relevant to the mechanisms.)

(Note: The provisions in paragraph 1 of document FCCC/SBSTA/2000/10/Add.1, part I, are now included in the draft text on guidelines for the preparation of the information required under Article 7(FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)

[Appendix B (to the annex to decision [C/CP.6] on Article 17)

Determination and allocation of the share of proceeds

1. The share of proceeds is defined as

Option A: x per cent of the [number] [value] of the initial transfer of [AAUs] [PAAs] from a registry into which they were issued.

The share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, to meet the costs of adaptation and shall be transferred by the [transferring] [acquiring] Party to an appropriate account maintained for this purpose by the adaptation fund[8] established by the COP/MOP.

Option B

(a) The level of the share of proceeds is x per cent of the transaction total amount;

(b) Option 1: No more than x per cent of the amount of the share of proceeds shall be used to cover administrative expenses. The remaining amount of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred by the [transferring] [acquiring] Party to an adaptation fund[9] established by the COP/MOP.

Option 2: Ten per cent of the amount of the share of proceeds shall be used to cover administrative expenses; 20 per cent shall be provided to the adaptation fund; and 30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives].

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[8] An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.

[9] See footnote 8.